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SUBJECT: EXXON REQUEST FOR ADVOCACY ON SOUR GAS

REF: 06 ABU DHABI 3026

¶1. (SBU) Summary: On March 18, Exxon Al-Khaleej President Kemnetz presented Ambassador with suggested advocacy points on ADNOC's sour gas tender. The tender is for gas reservoirs beneath two on-shore oil fields. Reserves of gas in each field are estimated to be extensive (around seven trillion cubic feet per field), but there is significant uncertainty about the figure. In addition, the gas is sour (20%-35% Hydrogen Sulfide) and the reservoir is technically challenging. Exxon officials believe that they have the most experience with this technically challenging project. They noted that this would be the first time that a foreign company participated in gas exploration and production. The tender submissions are due on April 15. Chevron and Occidental Petroleum are two other U.S. companies interested in the project. End Summary.

¶2. (SBU) On March 18, Exxon Al-Khaleej President Frank Kemnetz, Vice President Michael Perry, and Marco Rossi, Vice President for Upstream energy Research met with Ambassador, Econchief, and Commercial Counselor to discuss Exxon's request for advocacy on ADNOC's sour gas tender.

Background

¶3. (SBU) Strong economic growth in the UAE in general, and in the Emirate of Abu Dhabi in particular, is driving an increase in the emirate's demand for natural gas. Currently ADNOC is projecting a three billion cubic feet per day shortfall in gas beyond 2010, even with imports from Qatar (the Dolphin Project). Currently ADNOC supplies about one billion cubic feet per day to ADWEA and would be looking to double that figure.

¶4. (SBU) Abu Dhabi has significant undeveloped gas reserves, primarily in sour gas fields. ADNOC's sour gas tender is for the development of the Bab and Shah sour gas fields (onshore). Both fields are currently active oil producers: Bab is Abu Dhabi's largest onshore field producing 400,000 barrels per day of crude and condensates and Shah (by the Saudi border) producing 50,000 barrels per day.

¶5. (SBU) The reservoirs being tendered are the Arab fields, located below the oil reservoirs. Estimated reserves are large -- in the range of seven trillion cubic feet of gas per field -- but there is significant uncertainty about the real

reserves in both fields. Exxon notes that the range in the resource size is /- 50%, with additional appraisal drilling required. The reservoirs have low permeability .01-10 md and the gas is sour, with Hydrogen Sulfide levels of 20-35% and CO2 levels of 10%. Bab is dry gas, while Shah has condensates.

¶ 6. (SBU) Exxon officials explained the toxic nature of Hydrogen Sulfide and the need for flawless operations to ensure safe production. They noted that ExxonMobil has demonstrated experience and capabilities in managing sour gas projects, including Labarge (U.S.) and RasGas. They noted that this sour gas development could be the world's largest acid gas injection project (both in terms of volume of flow and in injection pressure). In addition, the complexity of the reservoir and the scale of the project require significant expertise, they noted. Expertise that Exxon has.

Who is Competing?

¶ 7. (SBU) According to Exxon, ADNOC has tendered to 10 IOCs. In response to Ambassador's question about competitors, Kemnetz said that the strongest competitor was likely to be Shell. Stressing that he was working from second hand sources, he said that he understood Shell, BP, Total, Exxon, Conoco, Occidental Petroleum, and the Japan Oil Development Co (JODCO) were all competing. He said that he understood that Chevron, BG, and Marathon had all dropped out. Initially, he noted Chinese and Indian firms were also interested.

First Foreign Participation in Gas

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¶ 8. (SBU) Currently, there is no foreign participation in either on-shore or offshore gas development and production. Foreign equity partners hold equity interest in producing gas liquids. The Abu Dhabi Gas Liquefaction Company (ADGAS) currently processes around 1.2 billion cubic feet per day from offshore fields. ADNOC holds a 70% stake in ADGAS. Three foreign partners hold the other 30% (Mitsui - 15%, BP - 10%, and Total 5%) Liquid production is around 180,000 barrels of oil equivalent per day. The Abu Dhabi Gas Industries Company (GASCO) processes about 4.6 billion cubic feet per day of gas from onshore fields. Associated gas liquids production is around 80,000 barrels of oil equivalent per day. ADNOC has a 68% stake in GASCO, foreign partners the rest (Total - 15%, Shell 15%, Partex 2%).

¶ 9. (SBU) Kemnetz noted that, if the project were done correctly, Abu Dhabi would want a company with capabilities that meet the Emirate's needs. He would expect the project to involve some sort of equity participation, with ADNOC as the majority stakeholder. Although the commercial terms remain to be negotiated, he said that he hoped ADNOC would be flexible on the Joint Venture. The project, he noted would be very expensive (over \$5 billion).

Timeline and Details

¶ 10. (U) ADNOC has hired Sherman and Sterling to provide legal advice and Rider Scott for technical advice on the tender. These companies worked on the Upper Zakum tender.

¶ 11. (U) ADNOC first requested expressions of interest to tender for sour gas fields in April 2006. In July, companies submitted their experience package to ADNOC as part of the tender prequalification. Also in July ADNOC announced the initial tender for the Arab reservoirs of Bab and Shah and released data on the reservoirs. In December, ADNOC released the tender terms of reference.

¶12. (SBU) Tender submissions are due to ADNOC on April 15, 2007. In mid-2007, ADNOC is expected to select tendering companies for negotiations. During the second half of 2007, ADNOC is expected to negotiate the technical and commercial terms with the selected IOC with a goal of awarding the tender and signing the agreement during the first quarter of 2008. (Comment: Based on our experience with the awarding of a concession for Upper Zakum, this appears to be an ambitious timetable. End Comment.)

¶13. (SBU) Suggested Advocacy Message

-- Emphasize fairness and transparency in decision-making, facts on current participating interests, and benefits of technology and know-how from American companies.

-- We applaud Abu Dhabi's ongoing emphasis on fairness and transparency in decision-making, and we fully support decisions based on the technical and commercial merits of bids. We recognize that Abu Dhabi government might also consider other factors in the sour gas award. If other factors are considered(

Tier I messages to emphasize:

-- We hope that some consideration will be given to the current level of participation. At present, only European and Japanese companies participate in the processing of Abu Dhabi's gas resources. There are no American companies. We hope that Abu Dhabi will also consider the value of U.S. company participation.

-- Abu Dhabi would benefit from application of American technology to ensure safe and economic recovery of its gas resources. Certain American companies are widely recognized for their technology, and some particularly for their advanced technology and expertise with sour gas.

-- An equally important consideration is excellence in project execution, especially critical in as challenging a project as the development of these resources. There are

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American companies that have repeatedly demonstrated the ability to complete multi-billion dollar projects on time and on budget.

Tier II message to also convey as opportunity presents:

Another strength of American companies is their training and development programs to develop the talents and capabilities of the UAE nationals.

Greater participation of American companies in Abu Dhabi gas industry would benefit Abu Dhabi in the development of the Emirate's resources and in the development of UAE nationals.
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